

BAD DEBT COORDINATION

13	BAD DEBT COORDINATION	1
13.1	Bad Debt Coordination Overview	1
13.1.1	Bad Debt Coordination Terminology	1
13.1.2	Bad Debt Coordination Policies	2
13.2	Collection Cost Offset Overview	2
13.2.1	Collection Cost Offset Policies	2
13.3	Quarterly Reporting Overview	3
13.3.1	Quarterly Reporting Policies	3
13.4	Accounts Receivable Recognition	4
13.5	Recording Revenue Recognition Overview	5
13.5.1	Accounts Receivable Examples	7
13.6	Fiscal Year-End Recording Overview	7
13.7	Recording Bad Debts Overview	7
13.7.1	Recording Bad Debt Policies	9
13.8	Accounts Receivable Summary Reports Overview	10
13.8.1	Summary Report 1 Overview	10
13.8.1.1	Summary Report 1 Policy	10
13.8.2	Summary Report 2 Overview	10
13.8.2.1	Summary Report 2 Policy	10

13 BAD DEBT COORDINATION

13.1 Bad Debt Coordination Overview

This section defines the policies for agencies to follow for reducing or eliminating accounts receivable.

13.1.1 Bad Debt Coordination Terminology

The following terms are used when referring to the Bad Debt Coordination process:

Accounts Receivable

Any amount due the State from an entity for which payment has not been received by the agency that is servicing the debt. Accounts receivables include unpaid fees, licenses, taxes, loans, overpayments, fines, forfeitures, claims and damages, penalties, interest, and other costs as allowed by law.

Accounts Receivable Type

The categories that classify accounts receivable according to the purpose for which the accounts receivable are established.

Administrative Offset

A reduction of any entity's tax refund or other payments due to the entity to reduce or eliminate accounts receivable that the entity owes to the State. For example, administrative offset could be the withholding of a payment to a vendor so the payment can be used to reduce/offset the vendor's overdue unemployment taxes. Administrative offset does not affect payments with federal or state restrictions.

Agency

"Agency" means any state office, department, board, commission, institution, division, officer or other person, or functional group, heretofore existing or hereafter created, that is authorized to exercise, or that does exercise, any functions of the government of the state in the executive branch, but not any governing body or officer of any local government or subdivision of the state, or any parochial officer who exercises functions coterminous with the municipality in which these functions are performed. Agency does not include any institution of higher education.

BAD DEBT COORDINATION

Entity

A corporation, partnership, individual, or other organization that pays taxes to or does business with the State.

Past Due

Any accounts receivable that the State has not collected by the payment due date.

Write-off

The removal of an accounts receivable from an agency's accounts receivable records, for accounting purposes only. This does not necessarily eliminate further collection efforts.

13.1.2 Bad Debt Coordination Policies

The following policies apply when performing bad debt coordination within the state accounting system:

- An agency will be responsible for collecting the past due amount of accounts receivable if the past due account receivable meets the criteria set under Louisiana Statute _____.

13.2 Collection Cost Offset Overview

This section defines the policies for identifying and paying collection costs from the proceeds of money collected. These collection costs include administrative, legal, and other direct collection costs.

13.2.1 Collection Cost Offset Policies

The following policies apply to the Collection Cost Offset process:

- OSRAP may approve an agency's use of up to ____ percent of available revenue (i.e., revenue not restricted for various reasons) collected from past due accounts to offset an agency's systems, administrative, legal, and other collection costs.
- Federal cost allocation requirements for specific accounts receivable related to programs that are supported by federal funds take precedence over other cost allocation methods provided in this policy.

BAD DEBT COORDINATION

- Collected funds not used to cover the collection costs are allocated on a prorated basis to the various revenue types that generated the accounts receivable.
- OSRAP may revoke the approval for an agency to use the collected funds to cover collection costs if the agency fails to comply with the required procedures.
- The agency submits a written request to _____ for approval to use money collected from past due accounts to offset collection costs. Include the following information in the request:
 - Type of past due account
 - Dollar amount of past due accounts
 - Method of tracking past due accounts
 - Schedule of anticipated direct collection costs
 - Description of anticipated benefits (monetary as well as non-monetary) made possible by additional collection efforts
 - Proposed method(s) of collection

13.3 Quarterly Reporting Overview

This section defines the policies for quarterly reporting of accounts receivable.

OSRAP has established an overall policy for improving the accounting, reporting, and collecting of accounts receivable. Each state agency must provide a complete report of the agency's accounts receivable to OSRAP.

13.3.1 Quarterly Reporting Policies

The following policies apply to quarterly reporting of Bad Debt Coordination:

- Each state agency must submit a quarterly Accounts Receivable Summary Report to OSRAP according to the following schedule:

BAD DEBT COORDINATION

<u>Reporting Period</u>	<u>Due Date</u>
July - September	November 15
October - December	February 15
January - March	May 15
April - June	Include with closing package

- Agencies will report on forms provided by OSRAP; or they may use an electronic spreadsheet provided the report includes all the information in the same format as included on the report forms.
- Agencies that do not generate receivables will submit a memorandum each quarter to OSRAP certifying that the agency had no receivables.
- On the form provided, adjust the receivables for:
 - Amounts estimated to be uncollectible (an appropriate allowance). See *Reporting Bad Debts* in the *Bad Debt Coordination* section of this manual for instructions to use in determining the allowance
 - Disputed receivables deemed uncollectible or expected to be waived through an appeals process.
- Recognize receivables as assets of the State that impact revenue, according to the *Accounts Receivable Recognition* section of this manual.
- OSRAP resolves any questions concerning recognition or classification of receivables.
- As required by law, _____ provides the governor and the legislature an annual summary of each agency's accounts receivable. The summary includes the following:
 - Type of revenue owed to the agency
 - Attempted collection activity
 - Costs incurred in the collection process

13.4 Accounts Receivable Recognition Overview

Cash transactions do not create accounts receivable. Therefore, do not record accounts receivable from cash transactions.

Record receivables when they are recognized. Receivables are normally recognized when the cash has not been received and the following criteria are met:

BAD DEBT COORDINATION

- The revenue event is complete, or the claim is legally enforceable to the extent that payment is the only unconsummated act. (The goods are delivered or the services performed. The revenue is earned, but not yet received.)
- The claim is measurable. Measurable means that the dollar amount of the revenue can be reasonably estimated. (The claim has a monetary value established by state law and/or administrative regulation.)
- Record receivables before they are recognized if the amounts are due before revenue recognition criteria are met. For example, a contract may require payment at the beginning, before the goods or services are provided. This money is recorded as a receivable.

13.5 Recording Revenue Recognition Overview

The various types of revenue and when they should be recorded include:

- Licenses, permits, fees:
 - Fees from licenses and permits should be recognized as revenue when cash is received. However, if the grantee of a license or permit has the legal right to exercise the privilege being granted by the license or permit until the fee is paid, the license or permit should be recorded as an accounts receivable on the date the legal right is given.
- Fines and Forfeitures:
 - Revenues from fines and forfeitures should be recognized and reported as an accounts receivable in the period that an enforceable legal claim is created. Conditions that constitute an enforceable legal claim include:
 - The date when an individual may contest a court summons expires, and the fine is automatically imposed
 - A court imposes a fine
- Sales of goods or services:
 - Revenue should be recognized in the period earned. Revenue is earned at the time the goods are delivered or the services are performed. All such revenues are recorded as accounts receivable if payment is not submitted either prior to the revenue event or simultaneously with the delivery of the goods or completion of the services. An agency recognizes an entity's obligation to pay when the sale of goods or services has been consummated and/or the pursuit of collection is authorized by Statute.

BAD DEBT COORDINATION

- Federal Contracts and Grants:
 - Revenue should be recognized when the State has an enforceable legal claim to the amount.
- Taxes:
 - Tax revenue is recognized if both of the following criteria are met:
 - The underlying transaction or event has taken place
 - The government has demanded the taxes from the taxpayer by establishing a due date on or before the end of the period. However, taxpayer-assessed taxes with a due date within one month after the end of the period to allow for "administrative lead time" should be considered as having been demanded as of the end of the period.
- Interest and penalties:
 - Interest should be recognized as it accrues over time. Penalties should be recognized as revenue when they are assessed.
- Interagency:
 - Interagency revenues represent goods or services provided by one state agency to another. Revenue is earned at the time the goods are delivered or the service is performed. All such revenues are recorded as accounts receivable if payment is not submitted either prior to the revenue event or simultaneously with the delivery of the goods or completion of the services.
- Other:
 - All other amounts that are due the state from an entity for which payment has not been received.

13.5.1 Accounts Receivable Examples

Receivables may be due from individuals, business entities, state employees, other state agencies, cities, towns, political subdivisions, local agencies, or federal agencies.

Some examples of receivables include:

- Amounts due for fines, licenses, and fees
- Amounts due for goods and services provided
- Amounts due for loans and notes receivable

13.6 Fiscal Year-End Recording Overview

At fiscal year-end, accounts receivable reported on the quarterly Accounts Receivable Summary Reports should also be reported on Accounts Receivable Closing Schedule FORM _____, except for the following:

- Amounts that are due before revenue recognition criteria is met
- Interagency accounts receivable

13.7 Recording Bad Debts Overview

This section defines the policies and methods to account for bad debts of agencies with receivables. Agencies with receivables would include, but are not restricted to, the Internal Service Funds, Enterprise Funds, and certain governmental agencies. It deals only with bad debt and does not pertain to billing credits issued or other negotiated billing adjustments.

The assets of an agency may include receivables that arise when fees, taxes, etc., are due or when a credit sale of a service or product occurs with state agencies or non-state entities. There is always a degree of uncertainty about the collectibility of receivables, in which case a bad debt contingency may exist. This section provides guidance for the effective treatment of bad debt contingencies that may affect the accounts receivable balance.

There are two general methods available for recording bad debts or potential bad debts.

- **Direct Write-off** - No bad debt expense entry is made until a specific account receivable is determined to be uncollectible. At that time the loss is recorded by a credit entry to Accounts Receivable and a debit entry to Bad Debt Expense. This method should only be used when bad debts are relatively rare.

BAD DEBT COORDINATION

- **Allowance** - An estimate is made for the expected uncollectible accounts receivable from all sales, fees, etc., and made on account or from the outstanding aged receivables balance. The bad debt estimate is entered as an expense and an allowance for bad debts in the period in which the sale, fee, etc., is recorded.

There are three basic methods of accounts receivable analysis in determining a current year loss due to uncollectible receivables under the allowance method.

- **Percentage of Sales/Revenues** - Based upon the agency's past experience with uncollectible accounts, an analysis is made to determine if there is a stable relationship between prior years charge sales and bad debts. If such a relationship exists, a percentage of bad debts to charge sales/revenue can be used to determine the current years bad debt expense.
- **Percentage of Outstanding Receivables** - Again based upon past experience, an agency can estimate the percentage of outstanding accounts receivable that will become uncollectible without identifying specific accounts.
- **Aging of Receivables** - This method is more sophisticated than the other two approaches and involves the creation of an aging schedule. This schedule helps to identify which accounts receivable require attention by providing the age of such accounts. Accounts are categorized by age such as those that are current, past sixty days due, past ninety days, etc. The estimated loss percentage developed for each category is determined based upon prior experience.

In general, the Percentage of Sales/Revenues method provides the best results. However, if no consistent pattern of uncollectible to sales can be established, other approaches might be desirable.

The direct write-off method assumes that a good account receivable resulted from each sale, assessment, etc., and that later events proved certain accounts to be uncollectible and worthless. From a practical viewpoint this method is simple and convenient but may not provide for the recognition of the bad debt soon enough.

The allowance method attempts to identify a bad debt expense in the same period as the recorded revenue to obtain a timely recognition of the potential bad debt expense. Although estimates are involved in the allowance method, the percentage of receivables that will not be collected can be predicted from past experience, present conditions, and an analysis of the outstanding balances.

Each method is acceptable as long as it is consistently applied. However, a bad debt that is to be written off under either method should be recognized only after all reasonable attempts made by the agency to collect the receivable have failed and the write off is approved in accordance with this policy.

13.7.1 Recording Bad Debt Policies

The following policies apply when processing bad debts:

- The **Director of the Division of Administration** must approve all Accounts Receivable write offs (charges to bad debt expense).
- OSRAP must approve all Accounts Receivable writeoffs over \$1,000 except where the procedures for the write off of bad debts is specifically addressed in the law.
- Each agency is responsible for determining the collectibility of their accounts receivable. Accounts receivable should be evaluated at least annually. Any estimated uncollectible receivables should be recorded by a charge to bad debt expense at the end of each fiscal year.
- The bad debt expense from uncollectible receivables will be recorded when both of the following conditions are met:
 - It is "probable" (more than 50% chance) that a portion of the receivables are uncollectible.
 - The amount of the bad debt expense can be estimated
 - Those conditions may be considered in relation to individual receivables or in relation to groups of similar types of receivables.
- Each agency should retain information on uncollectible receivables for one year.
- If an agency's receivables are generally all collectible with only an occasional write off of an uncollectible amount, a reserve for bad debts is not required. The uncollectible accounts may be written off as bad debts when they occur ("direct write off" method).
- If an agency regularly writes off uncollectible receivables, and bad debts are a recurring problem in their business activity, they should create an allowance for bad debts and write off uncollectible receivables against the allowance ("allowance" method).
- At fiscal year-end, agencies that do business with each other must process Interagency Transactions (IAT) for all "old" year payments due from each other prior to OSRAP's final cutoff date. Any billing not processed by the final fiscal year end cutoff must be written off as bad debt and cannot be collected in the new year. The final cutoff date for Interagency Transactions (IAT) between agencies is identified each year by OSRAP and is approximately one week before the closing packages are due.

NOTE: Any exceptions to this year-end write-off policy must be approved by the -
Commissioner of Administration.

13.8 Accounts Receivable Summary Reports Overview

This section describes the summary reports used to report accounts receivable.

13.8.1 Summary Report 1 Overview

The Summary Report 1 is used to report balances and estimated costs of collection activities, by quarter.

13.8.1.1 Summary Report 1 Policy

The following policy applies to the Summary Report 1:

- Round all amounts to the nearest whole dollar

13.8.2 Summary Report 2 Overview

The Summary Report 2 is used to report the sources of receivables, the age of receivables, and the collection activity, by quarter.

13.8.2.1 Summary Report 2 Policy

The following policy applies to the Summary Report 2:

- Round all amounts to the nearest whole dollar.

This page is left blank intentionally.